

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of North Branch	County Lapeer
Audit Date June 30, 2006	Opinion Date October 4, 2006	Date Accountant Report Submitted to State: December 18, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>		Zip 48707	

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

October 4, 2006

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of North Branch, Lapeer County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of North Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of North Branch, Lapeer County, Michigan as of June 30, 2006, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

The Management's Discussion and Analysis report of the Township of North Branch covers the Township's financial performance during the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

No major purchases have been made during this fiscal year.

The Fire Department constructed a building addition during the 2005-06 year at a cost of \$69,311.03.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. The Township's governmental funds include the General Fund and the Special Revenue Funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The revenue of the Township was somewhat more than the prior year. Primarily property taxes and revenue sharing are the main source of funding for the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund's fund balance decreased by \$14,735.56 to \$392,257.44, the Fire Fund fund balance decreased by \$14,285.69 to \$170,630.59, the Library Fund fund balance increased by \$37,453.56 to \$512,683.60 and the Building Fund fund balance increased by \$6,631.08 to \$56,061.51.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township acquired \$96,235.07 in new capital assets during the fiscal year ended June 30, 2006.

Principal payments on long-term debt were \$121,398.14.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Our Township Building roof system is being considered for replacement of a truss system as it is a flat roof and requires constant repair. This repair will be in the range of \$50,000.00 to \$60,000.00.

The Township revenues have plateaued. We do not expect any significant increases in taxes or revenue sharing. The Board has to be very conscientious of the decisions regarding projects.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial reports are intended to provide an overview of the Township's finances and to show necessity for the monies received by the municipality.

Any questions about our report or need for additional information should be directed to the Supervisor of the Township.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 104 292 14
Petty cash	150 00
Due from State	<u>27 191 00</u>
Total Current Assets	<u>1 131 633 14</u>
NON-CURRENT ASSETS:	
Capital Assets	2 284 218 41
Less: Accumulated Depreciation	<u>(740 820 58)</u>
Total Non-current Assets	<u>1 543 397 83</u>
TOTAL ASSETS	<u><u>2 675 030 97</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES:	
Contracts payable – equipment	226 222 38
Contracts payable – roads	<u>350 000 00</u>
Total Non-current Liabilities	<u>576 222 38</u>
Total Liabilities	<u>576 222 38</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1 317 175 45
Unrestricted	<u>781 633 14</u>
Total Net Assets	<u>2 098 808 59</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 675 030 97</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS		<u>Charges for Services</u>	
Governmental Activities:			
Legislative	4 145 44	-	(4 145 44)
General government	131 137 09	35 490 15	(95 646 94)
Public safety	215 721 55	77 073 50	(138 648 05)
Public works	63 266 14	-	(63 266 14)
Culture and recreation	224 068 33	-	(224 068 33)
Interest on long-term debt	<u>31 406 36</u>	<u>-</u>	<u>(31 406 36)</u>
Total Governmental Activities	<u>669 744 91</u>	<u>112 563 65</u>	<u>(557 181 26)</u>
General Revenues:			
Property taxes			435 923 50
Penal fines			46 563 97
State revenue sharing			186 159 34
Interest			9 134 04
Miscellaneous			<u>16 138 43</u>
Total General Revenues			<u>693 919 28</u>
Change in net assets			136 738 02
Net assets, beginning of year			<u>1 962 070 57</u>
Net Assets, End of Year			<u>2 098 808 59</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	354 017 21	170 630 59	512 583 60	56 011 51	1 093 242 91
Petty cash	-	-	100 00	50 00	150 00
Accounts receivable	-	-	-	-	-
Due from State	27 191 00	-	-	-	27 191 00
Due from other funds	11 049 23	-	-	-	11 049 23
Total Assets	<u>392 257 44</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>56 061 51</u>	<u>1 131 633 14</u>
<u>Liabilities and Fund Equity</u>					
Liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	392 257 44	170 630 59	512 683 60	56 061 51	1 131 633 14
Total fund equity	<u>392 257 44</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>56 061 51</u>	<u>1 131 633 14</u>
Total Liabilities and Fund Equity	<u>392 257 44</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>56 061 51</u>	<u>1 131 633 14</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 131 633 14
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	2 284 218 41
Accumulated depreciation	(740 820 58)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Contracts payable – equipment	(226 222 38)
Contracts payable – roads	<u>(350 000 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>2 098 808 59</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:					
Property taxes	132 085 47	125 254 18	178 583 85	-	435 923 50
Licenses and permits	6 261 00	-	-	63 311 00	69 572 00
State revenue sharing	180 783 13	-	5 376 21	-	186 159 34
Charges for services:					
Property tax administration	29 229 15	-	-	-	29 229 15
Fire	-	13 762 50	-	-	13 762 50
Penal fines	-	-	46 563 97	-	46 563 97
Interest	2 318 76	1 050 32	5 682 68	82 28	9 134 04
Miscellaneous	<u>3 682 54</u>	<u>612 90</u>	<u>10 782 99</u>	<u>1 060 00</u>	<u>16 138 43</u>
Total revenues	<u>354 360 05</u>	<u>140 679 90</u>	<u>246 989 70</u>	<u>64 453 28</u>	<u>806 482 93</u>
Expenditures:					
Legislative:					
Township Board	4 145 44	-	-	-	4 145 44
General government:					
Supervisor	9 796 39	-	-	-	9 796 39
Elections	2 634 70	-	-	-	2 634 70
Assessor	24 437 71	-	-	-	24 437 71
Clerk	31 432 92	-	-	-	31 432 92
Board of Review	1 077 50	-	-	-	1 077 50
Treasurer	11 728 33	-	-	-	11 728 33
Building and grounds	36 659 34	-	-	-	36 659 34
Professional services	2 803 75	-	-	-	2 803 75
Public safety:					
Fire protection	9 775 00	67 346 96	-	-	77 121 96
Ambulance	10 785 00	-	-	-	10 785 00
Building inspection	-	-	-	55 235 30	55 235 30
Planning and zoning	11 463 07	-	-	-	11 463 07
Public works:					
Highways and streets	61 951 09	-	-	-	61 951 09
Drains	1 315 05	-	-	-	1 315 05
Culture and recreation:					
Library	-	-	199 792 42	-	199 792 42
Capital outlay	14 593 42	69 311 03	9 743 72	2 586 90	96 235 07
Debt service	<u>124 496 90</u>	<u>28 307 60</u>	<u>-</u>	<u>-</u>	<u>152 804 50</u>
Total expenditures	<u>359 095 61</u>	<u>164 965 59</u>	<u>209 536 14</u>	<u>57 822 20</u>	<u>791 419 54</u>
Excess (deficiency) of revenues over expenditures	(4 735 56)	(24 285 69)	37 453 56	6 631 08	15 063 39
Other financing sources (uses)					
Transfers in (out)	<u>(10 000 00)</u>	<u>10 000 00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(10 000 00)</u>	<u>10 000 00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures	(14 735 56)	(14 285 69)	37 453 56	6 631 08	15 063 39
Fund balances, July 1	<u>406 993 00</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>49 430 43</u>	<u>1 116 569 75</u>
Fund Balances, June 30	<u>392 257 44</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>56 061 51</u>	<u>1 131 633 14</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	15 063 39
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(95 958 58)
Capital Outlay	96 235 07

Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets

Principal payments on long-term debt	121 398 14
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>136 738 02</u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of North Branch, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2005 tax roll millage rate was 2.9458 mills, and the taxable value was \$87,186,130.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	3-23 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 145 683 02</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	227 043 68
Uninsured and Uncollateralized	<u>924 551 22</u>
Total Deposits	<u>1 151 594 90</u>

The Township of North Branch did not have any investments as of June 30, 2006.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 7/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/06</u>
Land	75 500 00	-	-	75 500 00
Buildings	1 195 341 34	69 311 03	-	1 264 652 37
Equipment	<u>917 142 00</u>	<u>26 924 04</u>	<u>-</u>	<u>944 066 04</u>
Total	2 187 983 34	96 235 07	-	2 284 218 41
Accumulated Depreciation	<u>(644 862 00)</u>	<u>(95 958 58)</u>	<u>-</u>	<u>(740 820 58)</u>
Net Capital Assets	<u>1 543 121 34</u>	<u>276 49</u>	<u>-</u>	<u>1 543 397 83</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2006, was \$13,318.15.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

As of June 30, 2006, the Township had building permit revenues of \$63,311.00 and building permit expenses of \$57,822.20.

Note 9 – Interfund Receivables and Payables

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>11 049 23</u>	Current Tax Collection	<u>11 049 23</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 10 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 7/1/05	Additions	Deductions	Balance 6/30/06
Fire Building and Truck Contract Payable	205 006 07	-	18 692 46	186 313 61
Fire Truck Contract Payable	52 373 70	-	12 464 93	39 908 77
Road Contract Payable	20 240 75	-	20 240 75	-
Road Commission Contract Payable	420 000 00	-	70 000 00	350 000 00
Total	697 620 52	-	121 398 14	576 222 38

Note 11 – Fire Building and Truck Contract Payable

On December 2, 1998, through an installment purchase contract with J.A. Contracting and Independent Bank East Michigan, the bank agreed to pay the contractor \$300,000.00 to partially fund the construction of a new fire truck and EMS building. The contract is payable by annual installment of \$28,215.00 including interest at the rate of 4.65% per annum, beginning December 2, 1999. The principal balance as of June 30, 2005, was \$186,131.61.

Note 12 – Fire Truck Contract Payable

On October 27, 2003, the Township borrowed \$64,346.00 from a bank to pay the balance owed on a new fire truck. The loan is payable in five annual installments of \$14,200.10 including interest at the rate of 3.28% per annum beginning November 10, 2004. The principal balance as of June 30, 2006, was \$39,908.77.

Note 13 – Road Contract Payable

On December 14, 1994, through an installment purchase construction contract with the Lapeer County Road Commission, the Township borrowed \$149,000.00 from a bank which was used for road work. The loan is payable in 15 annual installments beginning October 1, 1995. The loan was paid in full during the year ended June 30, 2006.

Note 14 – Contract Payable – Lapeer County Road Commission

On February 7, 2001, the Township entered into a contract to pay the Lapeer County Road Commission the total amount of \$700,000.00 over a ten year period for road improvements that were made during the fiscal year ended June 30, 2002. The payments are due in semi-annual payments beginning August 1, 2001, including interest at rates from 4.9% to 5.5% per annum. As of June 30, 2006, the principal balance of the contract payable was \$350,000.00.

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 14 – Contract Payable – Lapeer County Road Commission (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
8/1/06	4.80%	\$70 000 00
8/1/07	4.85	70 000 00
8/1/08	4.90	70 000 00
8/1/09	4.95	70 000 00
8/1/10	5.00	<u>70 000 00</u>
Total		<u><u>\$420 000 00</u></u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	133 159 00	133 159 00	132 085 47	(1 073 53)
Licenses and permits	5 000 00	5 000 00	6 261 00	1 261 00
State revenue sharing	154 000 00	154 000 00	180 783 13	26 783 13
Charges for services:				
Property tax administration	25 682 00	25 682 00	29 229 15	3 547 15
Interest	1 500 00	1 500 00	2 318 76	818 76
Miscellaneous	1 700 00	1 700 00	3 682 54	1 982 54
Total revenues	<u>321 041 00</u>	<u>321 041 00</u>	<u>354 360 05</u>	<u>33 319 05</u>
Expenditures:				
Legislative:				
Township Board	4 445 00	4 445 00	4 145 44	(299 56)
General government:				
Supervisor	10 585 00	10 585 00	9 796 39	(788 61)
Elections	6 500 00	6 545 00	2 634 70	(3 910 30)
Assessor	22 905 00	25 030 00	24 437 71	(592 29)
Clerk	53 586 00	46 836 00	31 432 92	(15 403 08)
Board of Review	1 700 00	1 700 00	1 077 50	(622 50)
Treasurer	17 725 00	17 725 00	11 728 33	(5 996 67)
Building and grounds	40 625 00	39 205 00	36 659 34	(2 545 66)
Professional services	2 500 00	2 900 00	2 803 75	(96 25)
Public safety:				
Fire protection	10 000 00	10 000 00	9 775 00	(225 00)
Ambulance	-	11 000 00	10 785 00	(215 00)
Planning and zoning	47 235 00	37 235 00	11 463 07	(25 771 93)
Public works:				
Highways and streets	254 000 00	143 610 60	61 951 09	(81 659 51)
Drains	700 00	1 350 00	1 315 05	(34 95)
Capital outlay	2 000 00	17 300 00	14 593 42	(2 706 58)
Debt service	90 000 00	189 039 40	124 496 90	(64 542 50)
Total expenditures	<u>564 506 00</u>	<u>564 506 00</u>	<u>359 095 61</u>	<u>(205 410 39)</u>
Excess (deficiency) of revenues over expenditures	(243 465 00)	(243 465 00)	(4 735 56)	238 729 44
Other financing sources (uses):				
Transfers out	-	-	(10 000 00)	(10 000 00)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(10 000 00)</u>	<u>(10 000 00)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(243 465 00)	(243 465 00)	(14 735 56)	228 729 44
Fund balance, July 1	<u>392 758 00</u>	<u>392 758 00</u>	<u>406 993 00</u>	<u>14 235 00</u>
Fund Balance, June 30	<u>149 293 00</u>	<u>149 293 00</u>	<u>392 257 44</u>	<u>242 964 44</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	123 673 00	123 673 00	125 254 18	1 581 18
Charges for services	3 000 00	3 000 00	13 762 50	10 762 50
Interest	1 000 00	1 000 00	1 050 32	50 32
Miscellaneous	<u>1 100 00</u>	<u>1 100 00</u>	<u>612 90</u>	<u>(487 10)</u>
Total revenues	<u>128 773 00</u>	<u>128 773 00</u>	<u>140 679 90</u>	<u>11 906 90</u>
Expenditures:				
Public safety:				
Fire protection	73 725 00	67 935 00	67 346 96	(588 04)
Capital outlay	61 000 00	73 500 00	69 311 03	(4 188 97)
Debt service	<u>30 000 00</u>	<u>40 000 00</u>	<u>28 307 60</u>	<u>(11 692 40)</u>
Total expenditures	<u>164 725 00</u>	<u>181 435 00</u>	<u>164 965 59</u>	<u>(16 469 41)</u>
Excess (deficiency) of revenues over expenditures	(35 952 00)	(52 662 00)	(24 285 69)	28 376 31
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>10 000 00</u>	<u>10 000 00</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>10 000 00</u>	<u>10 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(35 952 00)	(52 662 00)	(14 285 69)	38 376 31
Fund balance, July 1	<u>184 807 00</u>	<u>184 807 00</u>	<u>184 916 28</u>	<u>109 28</u>
Fund Balance, June 30	<u>148 855 00</u>	<u>132 145 00</u>	<u>170 630 59</u>	<u>38 485 59</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	160 000 00	190 000 00	178 583 85	(11 416 15)
State revenue sharing	8 300 00	7 000 00	5 376 21	(1 623 79)
Penal fines	45 000 00	50 000 00	46 563 97	(3 436 03)
Interest	5 000 00	6 000 00	5 682 68	(317 32)
Miscellaneous	<u>12 000 00</u>	<u>11 500 00</u>	<u>10 782 99</u>	<u>(717 01)</u>
Total revenues	<u>230 300 00</u>	<u>264 500 00</u>	<u>246 989 70</u>	<u>(17 510 30)</u>
Expenditures:				
Culture and recreation:				
Library	252 100 00	240 555 00	199 792 42	(40 762 58)
Capital outlay	<u>175 000 00</u>	<u>125 000 00</u>	<u>9 743 72</u>	<u>(115 256 28)</u>
Total expenditures	<u>427 100 00</u>	<u>365 555 00</u>	<u>209 536 14</u>	<u>(156 018 86)</u>
Excess (deficiency) of revenues over expenditures	(196 800 00)	(101 055 00)	37 453 56	138 508 56
Fund balance, July 1	<u>465 000 00</u>	<u>465 000 00</u>	<u>475 230 04</u>	<u>10 230 04</u>
Fund Balance, June 30	<u>268 200 00</u>	<u>363 945 00</u>	<u>512 683 60</u>	<u>148 738 60</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2006

Township Board:	
Wages	3 862 16
Social security	283 28
	<u>4 145 44</u>
Supervisor:	
Wages	9 090 00
Social security	706 39
	<u>9 796 39</u>
Elections:	
Wages	1 996 67
Printing	638 03
	<u>2 634 70</u>
Assessor:	
Wages	18 640 00
Social security	1 425 98
Contracted services	500 00
Office supplies	3 871 73
	<u>24 437 71</u>
Clerk:	
Wages	23 582 54
Social security	1 804 14
Supplies	2 041 95
Dues	1 792 26
Contracted services	2 212 03
	<u>31 432 92</u>
Board of Review	<u>1 077 50</u>
Treasurer:	
Salary	9 580 08
Social security	732 96
Printing and publishing	1 415 29
	<u>11 728 33</u>
Building and grounds:	
Wages	1 071 00
Social security	81 94
Supplies	683 54
Telephone	3 238 19
Utilities	4 395 02
Insurance and pension	18 044 39
Contracted services	4 823 75
Repairs and maintenance	3 312 48
Miscellaneous	1 009 03
	<u>36 659 34</u>
Professional services	<u>2 803 75</u>
Fire protection	<u>9 775 00</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2006

Ambulance	<u>10 785 00</u>
Planning and zoning	<u>11 463 07</u>
Highways and streets: Contracted services	<u>61 951 09</u>
Drains	<u>1 315 05</u>
Capital outlay	<u>14 593 42</u>
Debt service	<u>124 496 90</u>
Total Expenditures	<u>359 095 61</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
June 30, 2006

	<u>Building</u>	<u>Fire</u>	<u>Library</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	56 011 51	170 630 59	512 583 60	739 225 70
Petty cash	<u>50 00</u>	<u>-</u>	<u>100 00</u>	<u>150 00</u>
Total Assets	<u>56 061 51</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>739 375 70</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>56 061 51</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>739 375 70</u>
Total Liabilities and Fund Balances	<u>56 061 51</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>739 375 70</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES -- ALL SPECIAL REVENUE FUNDS

Year ended June 30, 2006

	<u>Building</u>	<u>Fire</u>	<u>Library</u>	<u>Total</u>
Revenues:				
Property taxes	-	125 254 18	178 583 85	303 838 03
Licenses and permits	63 311 00	-	-	63 311 00
State revenue sharing	-	-	5 376 21	5 376 21
Charges for services	-	13 762 50	-	13 762 50
Penal fines	-	-	46 563 97	46 563 97
Interest	82 28	1 050 32	5 682 68	6 815 28
Miscellaneous	1 060 00	612 90	10 782 99	12 455 89
Total revenues	<u>64 453 28</u>	<u>140 679 90</u>	<u>246 989 70</u>	<u>452 122 88</u>
Expenditures:				
Fire protection	-	67 346 96	-	67 346 96
Building inspection	55 235 30	-	-	55 235 30
Library	-	-	199 792 42	199 792 42
Capital outlay	2 586 90	69 311 03	9 743 72	81 641 65
Debt service	-	28 307 60	-	28 307 60
Total expenditures	<u>57 822 20</u>	<u>164 965 59</u>	<u>209 536 14</u>	<u>432 323 93</u>
Excess (deficiency) of revenues over expenditures	6 631 08	(24 285 69)	37 453 56	19 798 95
Other financing sources (uses):				
Transfers in	-	10 000 00	-	10 000 00
Total other financing sources (uses)	<u>-</u>	<u>10 000 00</u>	<u>-</u>	<u>10 000 00</u>
Excess (deficiency) of revenues and other sources over expenditures And other uses	6 631 08	(14 285 69)	37 453 56	29 798 95
Fund balances, July 1	<u>49 430 43</u>	<u>184 916 28</u>	<u>475 230 04</u>	<u>709 576 75</u>
Fund Balances, June 30	<u>56 061 51</u>	<u>170 630 59</u>	<u>512 683 60</u>	<u>739 375 70</u>

TOWNSHIP OF NORTH BRANCH
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2006

	Balance 7/1/05	Additions	Deductions	Balance 6/30/06
<u>Assets</u>				
Cash in Bank	<u>49 701 96</u>	<u>2 280 664 58</u>	<u>2 277 926 43</u>	<u>52 440 11</u>
<u>Liabilities</u>				
Due to other funds	227 98	255 326 19	244 554 94	11 049 23
Due to others	<u>49 423 98</u>	<u>2 025 338 39</u>	<u>2 033 371 49</u>	<u>41 390 88</u>
Total Liabilities	<u>49 701 96</u>	<u>2 280 664 58</u>	<u>2 277 926 43</u>	<u>52 440 11</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 4, 2006

To the Township Board
Township of North Branch
Lapeer County, Michigan

We have audited the financial statements of the Township of North Branch for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of North Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of North Branch
Lapeer County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants